

Appendix B - Borrowing and Investment Activities

The Borrowing Requirement and Debt Management

The Council's capital expenditure is financed by external funding, revenue contributions or capital receipts. The Council is allowed to borrow to fund any shortfall in financing, provided the level of borrowing is prudent and sustainable. The Council increases its Capital Financing Requirement (CFR) when incurring any capital expenditure which is not financed by grants, contributions, capital receipts or revenue contributions. In addition to paying interest on debt, local authorities are required to set cash aside annually to repay the principal General Fund debt balance by means of a Minimum Revenue Provision (MRP). The borrowing requirement is reduced by the amount of any in-year MRP.

Borrowing Activity in 2016/17

	Balance on 01/04/2016 £M	Debt Maturing £M	New Borrowing £M	Reclassification £M	Balance on 31/03/2017 £M
CFR	475.8				524.4
Short Term Borrowing ¹	62.5	(281.0)	290.8		72.3
Long Term Borrowing	275.6				275.6
TOTAL BORROWING	338.1	(281.0)	290.8	0	347.9
Other Long Term Liabilities	15.7	(0.4)		1.9	17.2
TOTAL EXTERNAL DEBT	353.8	(281.4)	290.8	1.9	365.1

The Council's underlying need to borrow, as measured by the Capital Financing Requirement (CFR) as at 31/3/2017, was £524.4M – up by £48.6M from the previous year.

The Council did not repay any debt prematurely in the 2016/17 financial year, as discount rates made the costs involved unattractive.

The Council's strategy of borrowing from other local authorities on a short term rolling basis assumes that interest rates will continue to remain low for longer than previously envisaged, in line with advice from the Council's treasury advisers, Arlingclose Ltd. However, the Council will continue to monitor long term rates with a view to fixing a portion of its borrowing if rates are favourable.

¹ Loans with maturities less than 1 year and excludes short term borrowing for cash flow purposes borrowed and repaid in year.

Internal Borrowing

Given the significant cuts to local government funding putting pressure on Council finances, the strategy followed was to minimise debt interest payments without compromising the longer term stability of the portfolio. The differential between the cost of new longer term debt and the return generated on the Council's temporary investment returns was significant, at around 2%. The use of internal resources in lieu of borrowing was judged to be the most cost effective means of funding capital expenditure. This has lowered overall treasury risk by reducing temporary investments to minimal operational levels and has limited the extent of increase in external debt. Internal borrowing has been utilised to the full extent and there will be a need to borrow externally for capital purposes during 2017/18 and beyond.

Lender's Option Borrower's Option Loans (LOBOs)

The CIPFA Treasury Management Code requires the Prudential Indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e., the next call date. LOBO loans with a principal of £13.5M are therefore disclosed as reaching maturity in less than 12 months.

Debt Rescheduling / Restructuring

No debt rescheduling or restructuring was undertaken in 2016/17.

Investment Activity

CLG's Investment Guidance requires local authorities to focus on security and liquidity, rather than yield.

Investment Activity in 2016/17

Investments	Balance on 01/04/2016 £M	Investments Made / Capital Appreciation £M	Investments Repaid £M	Balance on 31/03/2017 £M
Short Term Investments (call accounts, deposits)	3.3	86.1	86.2	3.2
Money Market Funds	5.0	340.5	339.6	5.9
Other Pooled Funds	5.2	0.1		5.3
TOTAL INVESTMENTS	13.5	426.7	425.8	14.4

Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2016/17.

Investments during the year included:

- Investments in AAA-rated Money Market Funds;
- BBB-rated UK banks and Building Societies.

Credit Risk

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum counterparty rating of BBB+ or equivalent across rating agencies Fitch, Standard & Poor's and Moody's), share prices, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Liquidity

In keeping with the CLG's Guidance on Investments, the Council has maintained a sufficient level of liquidity through the use of Money Market Funds/overnight deposits/call accounts.

Yield

The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Base Rate was reduced to 0.25% in August 2016, down from 0.5%, where it remained unchanged for the rest of the financial year to 31 March 2017.

The Council considered an appropriate risk management response to uncertain and deteriorating credit conditions in Europe was to shorten maturities for new investments. Short term money market rates also remained at very low levels which had a significant impact on investment income, as investments were placed overnight or for short periods.

The Council's investment income for the year was £0.3M, with the Council's long term investment in the Lime Fund providing some cushioning against the low interest rate environment.

The average cash balance representing the Council's reserves, contributions/grants in advance, and working balances, was £22.4M during the period.

Compliance

To support financial strategic planning and decision making, the Council approves annually a series of Prudential Indicators which are regularly monitored. The Council did not exceed any of the various limits determined by the Treasury Management Strategy and specific Prudential Indicators. Full details of performance in respect of all of the Prudential Indicators for 2016/17 are set out in Appendix C.

In compliance with the requirements of the CIPFA Code of Practice this report provides Members with a summary report of the treasury management activity during 2016/17. The Council can confirm it has taken a prudent approach in relation to investment activity with priority being given to security and liquidity over yield.

The Council can confirm that during 2016/17 it complied with its **Treasury Management Policy Statement** and **Treasury Management Practices**.

Other Items

Training: The needs of the Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

During 2016/17 staff attended training courses, seminars and conferences provided by Arlingclose Ltd and CIPFA.